



Baird Investment  
Management

*From Baird Investment Management's  
Value Investment Team:*

## Small Cap Value 3<sup>rd</sup> Quarter 2014

### Portfolio Commentary

Market returns continued to vary throughout Q3 with July reversing June gains, August reversing July losses, and September reversing August gains. This gain and loss oscillation shouldn't surprise investors who seem thoroughly preoccupied during the quarter with the timing of Federal Reserve QE wind down, pace and direction of future interest rates, the Russian invasion of Ukraine, and the rise of ISIS terror assaults against Westerners. While there will always be fear in the market, we took advantage of these market opportunities to both buy and sell positions within the portfolio consistent with our outlook.



For the quarter, the BIM Small Cap Value composite returned -5.79% while our benchmark Russell 2000 Value Index was -8.58%. Performance was robust overall, the portfolio was even versus the benchmark in July but significantly outperformed in August and September (-6.06% vs. -6.05%, 6.49% vs. 4.35%, and -5.82% vs -6.75%). Year-to-date the composite returned -2.41% versus -4.74% for the benchmark.



Core to our strategy, we strive to buy stocks that will surprise or beat quarterly earnings estimates. For Q2 (latest quarter available), earnings surprise was +.81% for the BIM Small Cap Value composite versus -.28% for the benchmark.

Performance for the quarter was led by our holdings in Information Technology, Industrials, Consumer Discretionary, Consumer Staples, and Healthcare sectors. Information Technology continued its strength from Q2 into Q3 posting best sector performance in July and second best in August. Performance was broad based but led by semiconductors and equipment stocks. Consumer Discretionary underperformed slightly in July and September, but outperformed significantly in the month of August due to a position in the Automobile Component industry. Finally, Consumer Staples finished the quarter outperforming in September led by

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Rob Zwiebel  
*Senior Marketing Specialist*

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*Trading & Operations Analyst*

a Food Products company that outperformed in a declining market. Leaders included recently acquired Land's End (LE), Triqint Semiconductor Inc (TQNT), Motorcar Parts of America (MPAA), WEX Inc (WEX), and Integrated Device Technology Inc. (IDTI). Conversely, just two out of ten benchmark sectors detracted from performance including Financials and Energy. Financials underperformed in August and September due to exposure in Capital Markets, Thrifts and Mortgage Finance, and Consumer Finance. Lastly, Energy equipment and service stocks underperformed. Individual positions that lagged during the quarter included Conn's Inc. (CONN), Tristate Capital Holdings Inc. (TSC), Willbros Group (WG), Vantage Drilling (VTG), and Portfolio Recovery Associates (PRAA).

A new addition to the portfolio during the quarter included Synaptics Inc. (SYNA) a developer of computer and mobile phone user interfaces. Further, as noted earlier, we took advantage of market volatility to add to our existing position in Land's End (LE), Dorian LPG Limited (LPG), and Hilltop Holdings (HTH). To make room for these new additions we exited Conn's Inc. (CONN) and trimmed our existing positions in HCC Insurance Holdings (HCC) and WEX Inc. (WEX).

Thank you for your continued support and partnership. As always, we welcome the opportunity to discuss further should you desire.

Michelle E. Stevens, CFA

Portfolio Manager

**The Baird Investment Management Small Cap Value commentary is incomplete if not accompanied with the most recent performance report.**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

Indices are unmanaged and direct investment is not possible. Past performance is no guarantee of future results.

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First Use: 10/2014.

## Tenured Small Cap Value Investment Team

- 18 Years – Average Experience
- Long-Term Team Continuity

Investment Professional	Years of Experience	Investment Team Since	Coverage Responsibility	Educational Background
<b>Michelle E. Stevens, CFA</b> <i>Managing Director, Senior Portfolio Manager</i>	20	2000	Consumer Staples Energy Producer Durables REITS	MBA – (U. Cincinnati) BA – Economics (Wittenberg University)
<b>Richard B. Roesch, CFA</b> <i>Vice President Investment Analyst</i>	20	2004	Banks Consumer Discretionary Healthcare Technology	BS – Finance (Butler University)
<b>Jonathan DeMoss, CFA, CPA, CFP</b> <i>Vice President Investment Analyst</i>	17	2005	Auto & Transports Insurance Materials & Processes Utilities	MBA –(Indiana University) BA – Accounting/Management (Iowa State University)
<b>Rob Zwiebel</b> <i>Senior Vice President Senior Marketing Specialist</i>	22	2004	n/a	BS – Finance (University of Dayton)
<b>Jesse Parsons</b> <i>Trading &amp; Operations Analyst</i>	8	2012	n/a	BBA – Finance/Marketing (University of Kentucky)